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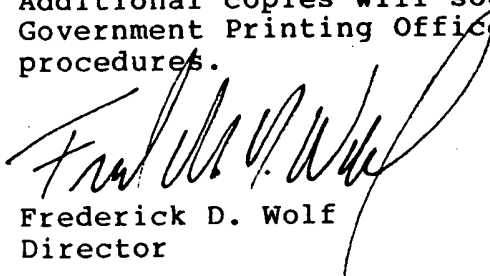
September 11, 1987



Heads of Departments and Agencies

This is an advance copy of the revised title 2, "Accounting," and new appendix III, "Accounting System Standards," of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. It is being sent to selected offices to alert agencies to the new standards. Along with the accounting and internal control standards previously published, agency heads must consider these new standards in accounting system development and maintenance and in their annual reporting on the status of systems as required by 31 U.S.C. 3512.

Additional copies will soon be available through the Government Printing Office in accordance with its normal procedures.


Frederick D. Wolf
Director

Enclosure

GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES

TITLE 2--ACCOUNTING

TRANSMITTAL SHEET NO. 2-25

August 31, 1987

Effective Date: Immediately (See Below)

Material Transmitted: Revised title 2--"Accounting" and
appendix III--"Accounting System Standards"

Transmitted herewith is a newly developed appendix to title 2, providing accounting system standards and related guidance, along with a revised title 2 to reflect minor conforming changes related to the new appendix.

This appendix prescribes accounting system standards that agency heads must observe in establishing, maintaining, and reporting on their systems of accounting and internal controls as required by 31 U.S.C. 3512. The standards apply to all manual and/or automated systems of accounting that are under development, under major revision, or operating in all executive branch departments and agencies, as defined in 31 U.S.C. 102 and 3501.

The standards are based on applicable systems requirements from the 1978 version of title 2, certain traditional ADP system life cycle concepts, current technology, and consultation with officials in a number of federal agencies and private firms. The standards are intended to promote, to the maximum extent possible, the use of systems that will provide the information needed for effective and economical management of the government's resources and operations and to assess management's stewardship.

The various standards are relatively broad so as to survive the passage of time and changes in technology. Along with the related guidance, they are intended to be complementary to the existing accounting and internal control guidance in appendixes I and II of title 2, as well as be compatible with the financial requirements currently placed on departments and agencies by the Office of Management and Budget and the Department of the Treasury.

The discussion material included in this appendix is intended to aid in interpreting and implementing the standards. It includes references to related requirements of law or guidance published by other central management agencies as appropriate.

All provisions that are designated as standards, i.e., that are presented at the beginning of each chapter under the "standards" caption, are intended to be mandatory. Consequently, if a system does not comply with the standards, the department or agency is

expected to plan for and ensure compliance within a reasonable time, in light of economic considerations, as well as make appropriate disclosure in reports on the status of the accounting system required by 31 U.S.C. 3512(c).

Filing instructions

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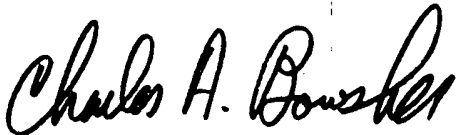
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Revised basic title 2, pages 1 through 4 and 2-1 through 2-8; and appendix III, pages i-1 through 6-4

Obtaining additional copies

Each federal department and agency receives a limited number of copies of all revisions and updates to the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Copies are sent to agency heads, the Offices of the Inspectors General or other agency audit heads, and departmental financial management offices. Additional copies are sent to other central locations in various departments and agencies, and to congressional offices, based on specific requests.

If you desire additional copies of this revision of title 2 and the new appendix III or any other title, they may be obtained from the Superintendent of Documents at the Government Printing Office by ordering them on a subscription basis.



Charles A. Bowsher
Comptroller General
of the United States

Please retain this transmittal sheet. It is part of the document.

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TITLE 2 — ACCOUNTING

CHAPTER 1 -- INTRODUCTION

SECTION 1 - STATUTORY RESPONSIBILITIES FOR ACCOUNTING

Under 31 U.S.C. 3512(a),(b), the head of each agency is responsible for establishing and maintaining adequate systems of accounting and internal control. The law requires that these systems must conform to the accounting principles, standards, and related requirements and internal control standards prescribed by the Comptroller General, which are contained in appendix I, "Accounting Principles and Standards," appendix II, "Standards for Internal Controls in the Federal Government," and appendix III, "Accounting System Standards." Agencies shall follow these standards unless otherwise specified by law.

To demonstrate that their systems of accounting and internal control are operating in conformity with the accounting principles, standards, and related requirements and internal control standards, agencies must report annually whether their accounting and internal control systems conform to GAO standards. This requirement is contained in 31 U.S.C. 3512(c), the Federal Managers' Financial Integrity Act of 1982. Agencies shall use the accounting principles, standards, and related requirements and the internal control and accounting system standards contained in this and other titles when preparing their annual statements.

The ultimate responsibility for good accounting systems for financial statements remains with management. Good financial management is dependent on strong financial management systems, including accounting systems containing sufficient discipline, effective internal controls, and reliable financial information. Financial statements prepared in accordance with these standards are part of the discipline and quality of the accounting system, and it is the primary responsibility of management to ensure that the financial statements and accounting systems comply with these standards.

SECTION 2 - APPLICABILITY

The requirements contained in this title apply to all federal departments, agencies, or instrumentalities in the executive branch that fall within the definition of executive agency as defined in 31 U.S.C. 102 and 3501. These requirements may be cited as "generally accepted accounting principles for the federal government." Government corporations, which are excluded from the definition, follow generally accepted accounting principles promulgated by the Financial Accounting Standards Board (FASB) and its predecessors.

Any guidelines and instructions that the Department of the Treasury may issue, setting forth policies of accounting and reporting designed to implement the standards promulgated by the Comptroller General herein, should be consistent with these standards. This includes detailed requirements Treasury may provide for agencies to follow in accounting and reporting on collections, budget authority, obligations, outlays, and budgetary resources, as well as assets, liabilities, revenues, and expenses.

SECTION 3 - ORGANIZATION OF THIS TITLE

This title is organized to discuss three topical areas. Chapter 2, "Accounting Principles and Standards," summarizes appendix I, which details the objectives, concepts, standards, and related requirements of federal government accounting and financial reporting. Chapter 3, "Internal Control Standards," summarizes appendix II, which details the objectives and specific internal control standards for federal government internal control systems. Chapter 4, "Accounting System Standards," summarizes appendix III, which provides guidance on the design and operational objectives for agencies' accounting systems.

CHAPTER 2 - ACCOUNTING PRINCIPLES AND STANDARDS

SECTION 4 - AUTHORITY

Appendix I prescribes principles, standards, and related requirements for accounting to be observed by each executive agency. This appendix is issued after consulting with the Office of Management and Budget and the Department of the Treasury concerning their accounting, financial reporting, and budgetary needs and considering the needs of other executive agencies, pursuant to 31 U.S.C. 3511.

Appendix I replaces previously issued accounting principles, memoranda, and statements except the April 18, 1983, Comptroller General letter "Modification of General Accounting Office Procedures With Respect to Approval of Executive Agency Accounting Systems."

SECTION 5 - OBJECTIVES, CONCEPTS, AND STANDARDS

Appendix I discusses accounting principles, standards, and related requirements of the federal government, which are comprised of objectives, concepts, and standards for federal government accounting and financial reporting.

5.1 OBJECTIVES

Objectives are goals or aims toward which accounting and financial reporting are directed. They are derived directly from the needs of intended users. Two of the main objectives of federal government accounting and financial reporting, summarized below, are discussed in detail in appendix I:

- allocating resources and
- assessing management performance and stewardship.

Resource allocation is the process of distributing budget authority and deciding how resources will be used. Assessing management's performance and stewardship involves analyzing information to determine if management is performing its program and stewardship function as the Congress intended.

5.2 CONCEPTS

Concepts provide the underlying basis for federal government accounting standards. They provide important assumptions in the federal accounting environment.

The specific concepts discussed in appendix I are:

- reporting entity,
- elements of financial reporting,
- usefulness of accounting information,
- recognition,
- measurement, and
- cost.

These concepts provide the foundation for consistent application of the accounting standards.

5.3 STANDARDS

Standards provide the basis for agencies to use in accounting for and reporting on the elements of financial reporting. The standards prescribed in appendix I are based on the objectives and concepts of federal government accounting and financial reporting. In addition to providing the basis for agency accounting and financial reporting, the standards in appendix I provide criteria for reviewing accounting systems in implementing the Federal Managers' Financial Integrity Act.

CHAPTER 3 - INTERNAL CONTROL STANDARDS

SECTION 6 - AUTHORITY

Appendix II, "Standards for Internal Controls in the Federal Government," is issued pursuant to 31 U.S.C. 3512(b) which requires the Comptroller General to prescribe internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control.

SECTION 7 - OBJECTIVES, CONCEPTS, AND STANDARDS

The internal control standards, as specified in appendix II, are comprised of objectives, concepts, and standards for executive agency internal control systems.

7.1 OBJECTIVES

The objectives of federal government internal control systems are presented in appendix II. They are to provide reasonable assurance that:

- Obligations and costs comply with applicable law.
- All assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

7.2 CONCEPTS

Concepts, along with the objectives of internal control systems, provide the basis for internal control standards. As discussed in appendix II, the concepts underlying the standards for internal control are:

1. The ultimate responsibility for good internal controls rests with management.
2. Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations.
3. Internal controls are plans of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and

policies; that resources are safeguarded against fraud, waste and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

7.3 STANDARDS

The Comptroller General's internal control standards are presented in appendix II. These standards cover program management as well as financial management, define the minimum level of quality acceptable for internal control systems in operation, and constitute the criteria against which systems are to be evaluated. The standards consist of General Standards, Specific Standards, and Audit Resolution Standards.

CHAPTER 4 - ACCOUNTING SYSTEMS

SECTION 8 - AUTHORITY

As required by 31 U.S.C. 3512(c), heads of executive branch agencies are to report annually on whether their accounting systems conform with the Comptroller General's accounting principles, standards, and related requirements as prescribed in this and relevant portions of other titles. Accounting system, in this application, is the total structure of methods and procedures used to classify and report information on the financial position and operations of a governmental unit of any of its funds, balanced account groups, and organizational components. It is comprised of the various operations involved in authorizing, recording, classifying, and reporting financial data related to financing sources and gains, expenses, losses and transfers out, assets, liabilities, and equity. It encompasses the procedures and processes from the point a transaction is authorized (initiated) through processing the data (either manually or automatically) to issuance of financial and management information statements and reports containing the data in detail or summary form.

SECTION 9 - OBJECTIVES

In addition to conformity with accounting principles, standards, and related requirements prescribed in appendix I of this document, accounting systems must be designed and operated to:

- (1) demonstrate compliance with applicable laws;
- (2) provide information needed by the President, the Congress (including congressional committees), Treasury, Office of Management and Budget (OMB), and the General Services Administration (GSA); and
- (3) provide information required by agency managers to operate their programs efficiently and effectively.

To help in designing and operating accounting systems, GAO periodically issues illustrative supplements. The procedures they illustrate are not mandatory, but they are designed to show acceptable ways of applying the prescribed principles and standards.

SECTION 10 - STANDARDS

The accounting system standards and related guidance are presented in appendix III.

2-8

TS 2-25 August 1987